COUNCIL AGENDA: 2-23-10
ITEM: 9.1

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR, CITY COUNCIL AND AGENCY BOARD

FROM: Debra Figone
Harry S. Mavrogenes

SUBJECT: FEASIBILITY OF INITIATING THE EXPANSION OF THE CONVENTION CENTER IN FY 2009-10

DATE: February 12, 2010

COUNCIL DISTRICT: #3

RECOMMENDATION

Accept this report on the feasibility of initiating the expansion and renovation of the Convention Center in FY 2009-10 and direct staff:

(a) To present to the Team San Jose/CVB Board of Directors a plan to utilize additional non-general fund revenue sources to finance the propose Convention Center Expansion.
(b) To proceed with a Request for Proposal design-build solicitation after non-general fund revenue sources to support financing the project have been identified.

OUTCOME

Based on this report the City Council will have a better understanding on the feasibility of the Convention Center expansion and renovation, including the level of risk to the General Fund and the remaining financing gaps and options to fill that gap.

EXECUTIVE SUMMARY

In December 2009, City and Redevelopment Agency (the "Agency") staff were directed to analyze the financial feasibility of expanding and renovating the Convention Center in FY 2009-2010. Based on the analysis contained in this memorandum, the project is not feasible at an acceptable risk level for the City unless there is a pledge of an additional non-general fund source of funds to pay debt service on bonds to be issued for the project. Staff has provided an analysis of the financing options from the hotel special tax, $30 million in Redevelopment Agency funds and other revenue sources that could be used to fill the funding gap.

BACKGROUND

The City, the Agency and hotel property owners with the Convention Center Facilities District ("CCFD"), Convention-Visitors Bureau ('CVB") and TSJ have been pursuing the expansion and renovation of the San Jose McEnery Convention Center since 2002. Most recently, the hotel community voted to create a Convention Center Financing District and to place a special 4% tax on hotel room rates (the "CCFD Tax") within the District. The CCFD Tax is to be devoted initially to the funding of the expansion and renovation of the Convention Center and to create an ongoing future funding resource for maintenance and capital improvements to the Convention Center. In December 2008, the City Council reviewed and approved a $350 million expansion and renovation program. However, the global recession in 2008 and 2009 resulted in declining hotel revenues that are the basis for the special tax financing and negatively impacted the Agency's ability to fund the project at the earlier anticipated levels.

At the December 15, 2009 Joint City Council-Redevelopment Agency Board meeting, City and Agency staff were directed to prepare an analysis inclusive of financing options proposed by TSJ of the feasibility of initiating a modified Convention Center expansion and renovation during FY 2009-10.

TSJ offered a number of funding strategies to aid the expansion project. These strategies included a recommended financing structure to generate $100 million and an additional $30 million from the Agency to fund a modified project totaling $130 million as follows:

- Raise $70 million from the CCFD Tax bonds;
- Approve $16 million in the Agency's proposed budget for Year 1 (FY 2009-10);
- Approve shifting $14 million by moving funds in the Agency's proposed 5-year Capital Improvement Plan from Year 4 to Year 2; and
- Generate $30 million from General Fund lease revenue bonds.

ANALYSIS

Over the last sixty days a team of City and Agency staff working with representatives of the hotel community and TSJ have formed the Capital Facilities Advisory Committee (the "Committee"). The formation of the Committee was directed as part of the resolution forming the CCFD. The Committee has been studying the feasibility of financing a modified scaled-down expansion and renovation project as proposed by TSJ and directed by the City Council and Redevelopment Agency Board. This memorandum presents the results of that analysis for proceeding with a project in FY 2009-10.

The elements of this memorandum include:

- Review of a proposed building program and its cost.
- Discussion of the availability and timing of Agency funding.
- Analysis of transient occupancy tax ("TOT") and CCFD tax revenues, based on hotel occupancy and rates currently, during a proposed construction period and following the expansion of the center.
- Financing options utilizing the CCFD Tax bonds and City lease revenue bonds.

- Alternative options to fill project financing gap.
- Applicability of other financing sources proposed by the City Council/Agency Board.
- Discussion of the design-build procurement model and how it would help to facilitate delivery of the project.

Revised Convention Center Expansion and Renovation Program

In response to the December 2009 City Council referral, City and Agency staff met with representatives of TSJ and the hotel community to determine what level of expansion and necessary renovations could be accomplished for the significantly reduced budget. Key to this discussion was a review by the hotel community of the prior program and what modifications could be made to deliver rentable space that could achieve the same economic objectives as the plan that the City Council considered in December 2008. The proposed revised program described below was also based on analyses conducted by the Departments of Public Works and General Services and, prior Agency analyses and studies.

It is the consensus of the City, Agency and the TSJ-hotelier teams that an expansion and renovation can be achieved for $130 million. The elements of this expansion and renovation program are discussed below. Whether all of the elements can be achieved in the initial design-build package can only be tested by the design-build solicitation. The proposed program would include an expansion program and required renovation components to integrate the new structure with the old. The renovation program is prioritized identifying items that could be funded in a subsequent on-going capital improvement program. Assuming a financing package that will net $130 million, the elements of the program anticipate $100 million for the expansion and $30 million for renovation. The expansion and renovation allocation is inclusive of hard and soft costs.

The expansion elements proposed are:

- 35,000 square feet of column-free ballroom with 30 foot clear ceilings and operable wall divisibility.
- 25,000 square feet of flexible meeting room space.
- Pre-function, food preparation and back of the house areas and systems to service the expansion space.
- Way finding and signage package connecting the expansion and existing center;
- Construction to a LEED-Silver rating.
- Furniture, fixtures and equipment for the expansion.
- An exterior architectural treatment that enlivens the convention center district and the downtown.
- Demolition of the former Martin Luther King Jr. Library and site preparation for the expansion.
- Restrooms to accommodate the additional space needs.
- Off-site sidewalk improvements as required by the City.

The renovation elements proposed are:

- Installation of a new central plant. This will support the expansion area and existing Convention Center as well as the adjacent Hilton Hotel that receive utilities under contract. This work includes replacing the heating, ventilation and air conditioning system including related pumps, chillers, exhaust fans, boilers, heat exchangers, cooling towers and related electrical systems.
- Installation of a new fire alarm and protection system for the entire Convention Center.
- Installation of a direct digital controls building management system for the entire Convention Center.
- Construction of necessary ADA improvements to integrate the expansion space with the garage and lobby areas of the existing building.

The convention center should reflect that the City of San Jose is the capital of Silicon Valley. With the continued deterioration of the existing facility, clients are choosing to go elsewhere citing that the building does not reflect San Jose. Depending upon the extent of the design-build proposals that might be received and the funds remaining from completing the elements outlined above, it might be possible for additional renovation improvements to be made with the initial project. This would include:

- Cosmetic and functional upgrades in the existing ballroom and exhibit space.
- Upgrades to the existing kitchen, restrooms and employees spaces.
- Additional ADA improvements in the existing space in association with an ADA improvement plan for the convention center and garage.

This proposed program differs in significant ways from what was approved by the City Council in December 2008. The revised concept attempts to maintain the functional areas and purposes of the original scheme by reconfiguring the ballroom and the meeting rooms to work off the existing common areas. A significant amount of public area was eliminated. Hence, even though the square footage decreased from 175,000 square feet to less than 125,000 square feet, the net square footage remains about the same.

The principal items deleted are:

- The specification that the exterior façade will consist of a glass curtain wall and metal panel system with a 3,300 square foot programmable LED media messaging display.
- A new lobby connecting the existing center with the expansion (it is anticipated that the expansion will connect to the existing concourse and that the existing lobby area will suffice for the expansion, too). The ballroom will use the existing concourse for pre-function space.
- Complete renovation of the kitchen.
- A defined set of cosmetic and function upgrades to the existing center. These upgrade items will be dealt with as described above through the design build process and an on-going capital improvement plan to be supported by special tax revenues not needed pay debt service on the proposed capital financing in future years.

Nevertheless, TSJ and hoteliers believe the $130 million project will still yield the same results as the original project. With the efficiencies gained by using the design build process, the reduced scope should be feasible and will meet the identified needs. Ultimately the expansion and renovation program will be tested by the design-build solicitation.

Availability and Timing of Redevelopment Funding

Also on the February 23, 2010 City Council/Agency Board agenda is a discussion and recommendation for approval of a proposed revised FY 2009-10 Capital and Operating Budget for the Agency as well as a proposed Revised FY 2010-15 Capital Improvement Program. Additionally, on the same agenda is a discussion and recommendation for funding of the Agency's $75 Million SERAF obligation which was imposed by the State in an attempt to balance the State budget. The impacts of the combined economic downturn, SERAF obligation, existing debt repayments and other budget demands facing the Agency have severely restricted the Agency's ability to make new budget commitments at this time, such as funding the expansion and renovation of the Convention Center.

The Agency has already expended approximately $20 million toward the Convention Center expansion and renovation project. These funds paid for financial and design analyses (through completion of design development documents) and replacement of the roof on the existing facility. Consistent with City Council direction that the Convention Center project is a priority, Agency staff is recommending that an additional $30 million ($16 million in FY 2009-10 and $14 million in FY 2012-13) be made available for this project. Staff believes that the timeline for the project construction can be scheduled such that the $16 million can "jump-start" construction and the remaining $14 million can be applied toward finishing needed work at the end of the project construction. Advancing the $14 million would jeopardize other priority projects and obligations as more fully discussed in the Agency's revised budget memo.

Analysis of Transient Occupancy and CCFD Tax Revenues by Horwath

To assess the ability of the CCFD Tax revenues to support the Convention Center expansion and renovation project, Horwath HTL ("Horwath") was retained by the City to review the data, assumptions and methodology utilized by TSJ and their consultants in preparing the initial analysis. Horwath is a highly regarded consultant in hotel, tourism and leisure industries. The City retained Horwath for projections on earlier analyses for this project which were presented to Council in 2008 and 2009.

According to Horwath the current economic conditions in the hotel sector continue to create a great deal of uncertainty. Horwath has indicated that the worst is behind us, but the City is not expected to return to FY 2008 TOT collection levels until FY 2014 or FY 2015. Based on Horwath's analysis, hotels will continue to struggle with competitive rate pressures until the hotel occupancy levels increase. Increases in occupancy will allow larger increases in room rates and correspondingly larger TOT and CCFD Tax collections.

The CCFD Tax rate varies between two distinct tax zones. Zone 1 is subject to a CCFD Tax equal to 4% and Zone 2 is subject to a CCFD Tax that is phased in over a three-year period, increasing from 1% in the first half of Fiscal Year 2009-10 to 4% by Fiscal Year 2011-12.

The following schedule represents Horwath's estimates of annual special tax revenue, accounting for the three-year phase-in of the CCFD Tax for hotels located farther from the Convention Center.

	2010	**2011**	**2012**	**2013**	**2014**
CCFD Special Tax Revenues	$4.0 million	$5.6 million	$6.3 million	$6.8 million	$7.8 million

Financing options utilizing the CCFD Tax and City lease revenue bonds

A financing team was assembled consisting of staff from Finance, the City Manager's Office, Budget Office, City Attorney's Office, the Agency, Stone & Youngberg (the City's Financial Advisor), representatives from TSJ, Strategic Advisory Group (TSJ's financial advisor) and hotel representatives.

The team has developed three financing models with multiple financing scenarios for each. Each model generates different amounts of net bond proceeds and carries different levels of risk to the City's General Fund. The three models analyze the feasibility of using the CCFD Tax revenues, the City's General Fund lease revenue bonds, and a hybrid with the combination of the two.

Each of the financing models analyzed contain financing elements to mitigate risk to both the City's General Fund and the CCFD in the event of declining revenues and shortfalls:

- Revenue Stabilization Fund (RSF) – This fund is a capitalized debt service reserve for the financing. The required amount of the RSF will be defined in the bond documents, but is assumed to equate to <u>at least</u> one year's worth of maximum annual debt service. As defined in the CCFD formation documents, the RSF will be available to draw upon in any given year in the event there are insufficient CCFD Taxes to fund the annual debt service payment required. This fund will be analyzed on an annual basis.

- Additional Special Tax (1% Blinker Tax) – an additional special tax of 1% was established as part of the CCFD Tax structure to replenish any draws on the RSF and to be triggered in the event there are insufficient CCFD Tax proceeds to cover annual debt service payments. The effect of the blinker tax will be to increase the special tax that applies to the hotel guest bills from 4% to 5%. The 1% Blinker Tax also provides additional coverage to bondholders. The necessity of turning the blinker "on" and/or "off" will be analyzed on an annual basis.

- Debt Ratio Coverage – Percentage of pledged revenue to annualized debt service. Depending on the type of financing model discussed debt ratio coverage will increase or decrease. The models under discussion have a range of debt ratio coverage between 100% and 150%.

The three models the Team analyzed are discussed below and the estimated net proceeds that could be generated are shown on the following page.

CCFD Tax Bonds

In this financing model, the City would issue a stand-alone financing solely secured by CCFD Tax revenues. The CCFD Tax revenues would be the only source of debt repayment. The Revenue Stabilization Fund (RSF), as noted above would be used to provide a reserve to cover debt service in the event of revenue shortfalls.

Required debt ratio coverage on investment grade-rated hotel tax financing of that type range from 150% to 200%, though the required ratio may be lower for a particularly broad and diverse hotel tax base. This CCFD Tax financing would likely have a lower credit rating than lease revenue bonds, particularly with lower debt service coverage, and therefore carry higher interest rates and result in lower net proceeds. This model provides the lowest level of risk to the City's General Fund.

General Fund Lease Revenue Bonds

In this financing model, the City would issue stand-alone lease revenue bonds secured by General Fund lease payments, with the CCFD reimbursing the General Fund from pledged CCFD Tax revenues. Lease revenue bonds enable greater leverage of the revenues (at lower coverage levels) and lower interest rates due to the City's high credit rating. The RSF and 1% Blinker Tax would provide additional security to the General Fund repayment. For purposes of the bonding capacity analysis, staff assumed pledging the total 4% CCFD Tax at 100% coverage; the potential for the 1% Blinker Tax would provide additional 25% debt ratio coverage.

This model would likely result in the lowest borrowing cost and highest available net proceeds to the project because of the City's strong General Fund lease revenue credit ratings. However, of the initial three models analyzed, this model would potentially pose the greatest risk to the General Fund if CCFD Tax revenues were not sufficient to fund 100% of debt service. It should also be noted that this financing structure would require a City asset to be used as substitute collateral for the bonds until the construction of the expansion is completed and there is beneficial use of the project.

Hybrid Combination of the CCFD Tax and Lease Revenue Bonds

In this financing model, the City would issue two series of bonds: (i) CCFD Tax bonds with a first lien on the CCFD Tax revenues and adequate coverage to secure investment grade credit ratings, <u>and</u> (ii) lease revenue bonds secured by General Fund lease payments, with the General Fund reimbursement from a subordinate lien on pledged CCFD Tax revenues. The primary benefits of this model would be to reduce the amount of City assets required as collateral during construction and reduction in the amount of outstanding General Fund-supported debt. The primary disadvantage of this approach is that the General Fund is taking the risk that the CCFD Tax revenues will not cover 100% of debt service and therefore does not really reduce the overall General Fund risk.

This model would produce more in net proceeds than the stand-alone CCFD Tax bond option but moderately less than the stand-alone General Fund lease revenue option. The risk to the General Fund is lower than the 100% general fund lease revenue option and greater than the 100% CCFD Tax Bonds option.

Summary and Conclusions of Analysis of the three Financing Models Analyzed

The following table compares the bonding capacity of the three financing models. For comparison purposes, staff has included the bonding capacity of each scenario assuming the impact of potential increases or decreases in the assumed interest rate of 0.5% interest. As illustrated in the table below, **none of the financing models achieve the target to fund $100 million of the currently proposed modified scaled down $130 million expansion and renovation project.** Assuming current market interest rates, the current funding gap ranges from $10.1 million to $29.4 million, depending upon the associated financing model.

Comparison of Project Proceeds Based on Financing Model

CCFD Tax Bonds	
Current market PLUS 0.5%	$66.6 million
Current market rates	**70.6 million**
Current market MINUS 0.5%	74.9 million
General Fund Lease Revenue Bonds	
Current market PLUS 0.5%	$84.8 million
Current market rates	**89.9 million**
Current market MINUS 0.5%	95.5 million
Hybrid (83% CCFD/17% LRB)	
Current market PLUS 0.5%	$80.7 million
Current market rates	**85.5 million**
Current market MINUS 0.5%	90.8 million

Alternative Options to Fill Project Funding Gap

Based on the results of the analysis of the three financing models noted above, the project faces a substantial funding gap. The financing team determined that additional funds must be identified and pledged to fill the funding gap if the City Council wishes to proceed with the modified expansion and renovation project.

To protect other General Fund programs from potential impact of this financing, staff recommends that the source of additional revenues necessary to be pledged to fill the funding gap come from non-general funds already allocated to Convention Center activities.

In addition to and prior to the hotel community voting to place a special 4% tax on hotel room rates within the City for expansion and renovation of the Convention Center, the City has had a separate 10% TOT tax assessed on transients occupying rooms in all hotel rooms throughout the City. According to the criteria specified on the San Jose Municipal Code the City's TOT is allocated as follows:

- Sixty percent of the City's TOT tax receipts are deposited into the Transient Occupancy Tax Fund. These funds are disbursed as follows:
  - 50% supporting convention and cultural facilities operations;
  - 25% supporting the Convention and Visitor's Bureau; and
  - 25% supporting the arts.
- Forty percent of the City's TOT tax receipts are deposited into the General Fund to support general government services provided by the City to the community. These general fund revenues are not allocated for any specific purpose.

To fund the financing gap for the project, staff has identified the following revenue streams currently allocated to the Convention Center:

- Portion of the TOT (30%) dedicated to Convention Center operations ***(FY 2009-10 - $3,889,922).***
- Portion of the TOT (15%) dedicated to funding of a CVB ***(FY 2009-10 - $2,138,279).***
- Annual general fund subsidy of the CVB, which varies from year to year ***(FY 2009-10 - $1,708,298).***
- Hotel BID tax.

Of the revenue sources listed above, staff recommends that the portion of TOT (15%) dedicated to funding the CVB is the best viable option to pledge for filling the project's funding gap (#2 above). The Municipal Code specifies the use of this portion of the TOT and provides that TOT shall be expended on: "Funding of a convention and visitor's bureau for the City of San Jose, including a rental subsidy of City facilities for convention purposes." This language is broad enough to encompass the payment of debt service on Lease Revenue Bonds for convention facilities.

The additional bonding capacity provided by pledging this revenue stream would result in providing the necessary funding to finance $100 million for the proposed project. It is important to note that it is necessary to pledge this revenue stream for the project to achieve the targeted debt service funding. This alternative option anticipates that these additional revenues would be available for funding debt service. Therefore, staff recommends that the annual revenue from this source be held by the City and reserved for payment of debt service. The funds would be available on an annual basis, held by the City in a reserve. Each year, in conjunction with annual analysis of the RSF and 1% Blinker Tax, staff would analyze the funding needed from this source. Each year, after debt service funding was achieved (on an annual basis), in arrears, any unneeded funds for debt service funding would be transferred.

The TOT (30%) dedicated to Convention Center operations (Fund 536) is already being used to help the expansion and renovation by funding the operational losses sustained during the construction period and therefore is not recommended to be used to secure debt service.

Financing Options Analysis Summary

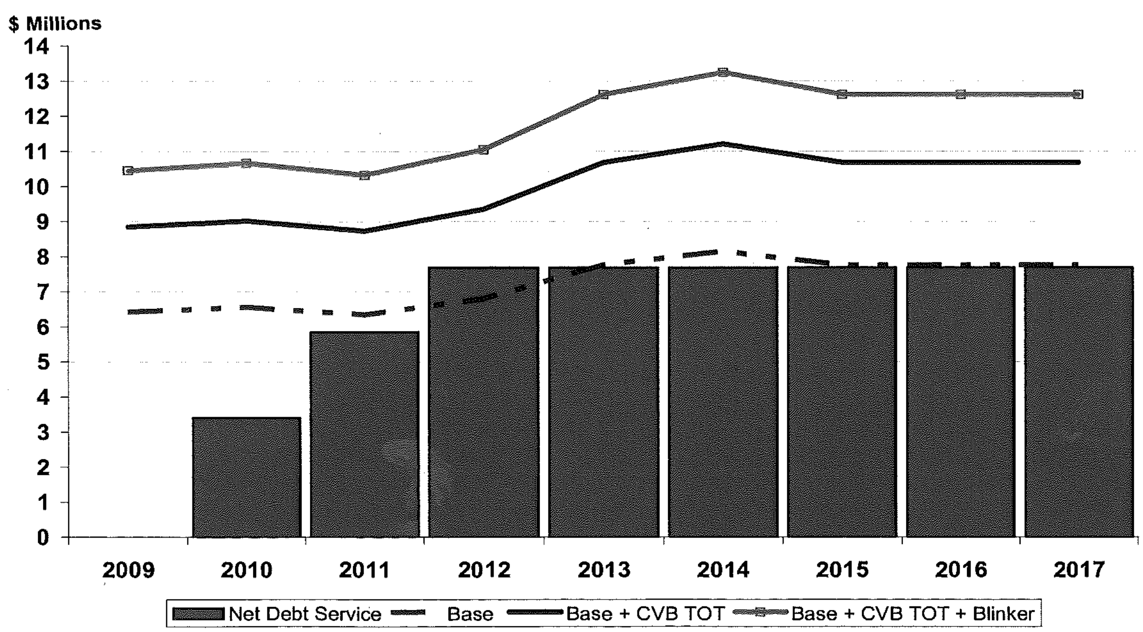
Based on current market rates, the table below provides an overview of the four bonding models analyzed by staff summarizing the bonding capacity, potential project funding gaps they produce, and the level of General Fund commitment.

Each funding strategy has a certain level of General Fund risk associated with it due to the uncertainty of special tax revenues. General Fund risk takes several forms, including direct monetary risk in the event of revenue shortfalls, potential risks to General Fund credit ratings due to increased leverage, and decreased General Fund financing flexibility because each additional issuance reduces overall General Fund debt capacity.

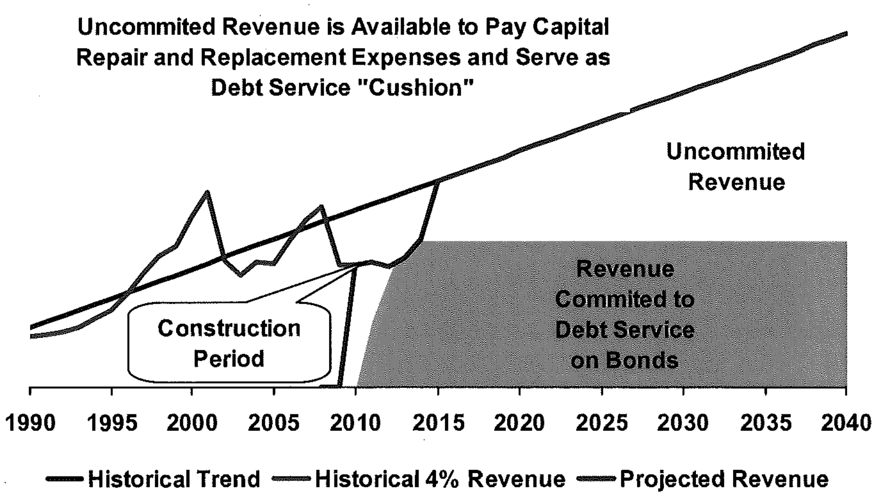
Bond Structures	Bonding Capacity	Funding Gap	General Fund Commitment
CCFD Tax Bonds	$70.6 million	$29.4 million	Low
Lease Revenue Bonds (LRB)	$89.9 million	$10.1 million	High
Hybrid (83% CCFD/17% LRB)	$85.5 million	$14.5 million	Med
CCFD Tax Bonds with 1.5%	$100 million	$0	Low

The following graph provides an illustration of the annual debt service, base annual revenue streams of 100% of CCFD tax (Base), Base plus CVB TOT revenues, and Base plus CVB TOT and revenues from 1% Blinker Tax. The pledge of CVB TOT provides an average annual $2.7 million in additional revenues. The Blinker Tax provides an estimated additional $1.8 million for a total $4.5 million available to fund debt service if CCFD Tax revenues were to decline. The graph illustrates that the CCFD tax alone will realize approximately a 100% coverage ratio. However, after layering the CVB TOT revenues, the coverage ratio rises to 140% and adding the 1% Blinker Tax revenues raises coverage to approximately 170%.

Convention Center Community Facilities District
Projected Revenues and Debt Service on CCFD Tax Bonds Netting $100 million



The financing model assumes that projected revenues, after the RSF is funded and debt service is paid, will provide additional uncommitted revenues for capital repair and replacement expenses. Additionally, following the complete funding of the RSF, CCFD Tax revenues will accumulate in the CCFD revenue fund to provide an additional cushion during economic downturns. Subsequently, as the CCFD Tax revenues increase above the amount necessary to pay debt service, the balance in the CCFD revenue fund in excess of the RSF requirement will be available to pay for ongoing capital and replacement expenses and to fund future capital enhancements of Convention Center Facilities.



Applicability of Other Financing Sources Proposed by the Council

As a part of the Council direction at the December 15, 2009 meeting, staff was asked to look at the possibility of interfund loans to fill the financing gap in the convention center project. At this time, interfund borrowing from City funds is not necessary or recommended by the City or Redevelopment Agency staff. As discussed in the information memoranda from the City Manager dated November 18, 2009 and December 10, 2009 on Agency borrowing from City funds to make the SERAF payment, a preliminary review of the City's 114 budgeted funds was conducted. Based on that review (while there are many considerations and risks as outlined in the November 18th memorandum) it was determined that balances in the Subdivision Park Trust Fund (up to $10 million), the Sewage Treatment Plant Connection Fee Fund (up to $5 million), and the Ice Centre Revenue Fund (up to $2 million) could possibly be used for loans to the Agency, and no additional funding sources could be recommend for borrowing. Of the $17 million of potential borrowing sources identified, it should be noted that the Mayor and City Council recommended $10 million to be used for an Agency loan as a funding source for the SERAF payment. More detail regarding the interfund loan and alternative uses can be referenced in the memorandum from the City Manager and Agency Executive Director to be heard at the February 23rd meeting.

It is important to note that the City Council Policy on Interfund Loans specifies that such loans must have an identified repayment source and date; include an interest component that equals the investment earnings the fund would have received had the loan not occurred; and be immediately due and payable if needed by the fund that provided the loan. As discussed in the memoranda from the City Manager, in case of non-payment, the City's General Fund may become liable for the loan repayment to the lending fund in order that the purposes of this special fund are able to be met.

Design-Build Procurement Model

Design-Build is an alternative to the traditional design-bid-build system where the City contracts with a single entity to provide design and construction services. Design-Build is best described as a method of project delivery in which one entity (the design-builder) is retained through a single contract to provide both architectural and engineering services in addition to construction services. The primary advantages to design-build are the opportunity for time savings by having construction start before the final design is complete and cost savings (or the ability to maximize scope within a set budget) through construction efficiencies.

Negotiated design-build has the added benefit of selecting a design-build entity based on qualifications rather than low-bid and the ability to "negotiate" a design-build contract to shape a projects scope within a set budget.

The City has had legal authority to utilize the negotiated design-build process since 2004 when San José voters passed Measure D. Measure D, which is aimed at full accountability, requires that the City Council make findings that design-build will save time and money prior to executed contract. The success of using design-build procurement model at San José Mineta Airport is evident. By defining the project based on available funds, selecting a contractor based on qualifications rather than low bid, and negotiating a contract structured around the project's priorities, the project that is currently underway is more than three months ahead of schedule and tens of millions of dollars under budget. Though design-build model is sometimes criticized for not resulting in quality architecture and urban design, the Airport project is a good example of how quality architecture can result.

Specific to the Convention Center, design-build model lends itself to build out of new space and rehabilitation of existing space through managing the project's scope based on stakeholder priorities and available funds. Because the design-build model allows for the selection of a contractor to manage design development, maximizing scope within the approved budget creates savings through construction efficiency and reduced soft costs. Based on the current competitive market in the construction industry, procuring a design-build contractor at this time is very likely to result in more "project" for the funds available.

Effective January 2010, a revision to State law enables the Agency to utilize a design-build process rather than the standard competitive design bid build public process.

Agency staff has been engaged in the Convention Center expansion process since 1997 when the original Convention Center Expansion Master Plan was developed and has been actively involved in planning and designing expansion and renovation ever since. The City Public Works Department has an experienced team that has been engaged in the design-build process at the Airport. The combination of experience between both staffs should allow for expediting the process for the Convention Center project so as not to miss the current favorable construction climate.

EVALUATION AND FOLLOW-UP

If the City Council wishes to proceed with the expansion and renovation project, City and Agency staff will review the alternative financing models with the Committee in conjunction with fully analyzing a $130 million expansion and renovation project. The next step will be for the City staff to present to the Team San Jose/CVB Board of Directors a plan to utilize additional non-general fund revenue sources to finance the propose Convention Center Expansion. The City and Agency will then proceed to structure the design-build procurement process. Staff will provide Council with regular updates through informational memos.

The earliest the City could proceed with a bond issuance is early next year after the completion of the validation process of the 4% special tax. At that time, staff will return with the results of the design-build procurement, final recommendation on the financial structure and with a revised "Return on Investment" analysis of the potential building program would generate.

PUBLIC OUTREACH/INTEREST

If approved by the City Council, staff will work with the Capital Facilities Advisory Committee to proceed with a program level document to submit for a request for proposal ("RFP").

- ☐ **Criterion 1**: Requires Council action on the use of public funds equal to $1 million or greater.
- ☐ **Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City.
- ☐ **Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach.

COORDINATION

This staff report has been prepared by the City Manager's Office in coordination with the City Manager's Budget Office, the City Attorney's Office, the Redevelopment Agency, the departments of Finance, General Services, Public Works, and the Capital Facilities Advisory Committee.

COST SUMMARY/IMPLICATIONS

The above memorandum presents the financial implications of proceeding with the Convention Center expansion and renovation project.

CEQA

Resolution No. 72767 and Addenda thereto. File No. PP08-002.

DEBRA FIGONE
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For questions please contact Paul Krutko, Chief Development Officer, at 408-535-8182.